

U.S. Environmental Protection Agency, Region 10



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# Idaho Clean Water State Revolving Fund

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SFY 2002-2003 Program Evaluation Report

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UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

REGION 10

1200 Sixth Avenue  
Seattle, WA 98101

Reply to  
Attn Of: OWW-137

Barry Burnell, Administrator  
Water Quality Division  
Department of Environmental Quality  
1410 North Hilton Street  
Boise, Idaho 83706

RE: Idaho Water Pollution Control Revolving Fund  
Program Evaluation Report for SFY 2002 and SFY 2003

Dear Mr. Burnell:

In cooperation with the clean water state revolving fund staff from the Department of Environmental Quality (IDEQ), the U.S. Environmental Protection Agency (EPA) has completed a periodic review of IDEQ's continuing administration of the Idaho Water Pollution Control Revolving Fund (Fund). I have enclosed the results of this review in the EPA's Program Evaluation Report (PER) for state fiscal years 2002 and 2003.

The PER takes a new form this year in response to guidance published last year to govern how the EPA's regional offices structure and conduct their legally required annual program evaluations of the state water pollution control revolving funds. The report consists of two related documents. The first document is a narrative that articulates our findings, documents our reviews of loan project files and provides explanatory information, where necessary, for a set of completed review questionnaires. Those review questionnaires are incorporated into the second document, which is presented as a set of completed Excel worksheets. Those worksheets frame the questions that guided the EPA's annual performance review of the water pollution control revolving fund.

We want to note that Idaho's Water Pollution Control Revolving Fund continues to be well managed and that management continues to improve. In the past few years the Idaho program has developed and implemented a integrated priority setting system for ranking projects that are candidates for financial assistance from the Fund, started offering assistance from the Fund to projects that implement Idaho's nonpoint source water quality plan and gained legal authority to begin assessing loan fees to pay the administrative costs of the program. Additionally, within the past year IDEQ and EPA substantially revised the Operating Agreement between the IDEQ and the EPA that governs the administration of the program. Each of these actions demonstrates IDEQ's continuing commitment to the success of the program.



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The PER notes two subjects where expeditious corrective action by IDEQ is necessary. First, IDEQ needs to develop and implement a protocol for conducting a creditworthiness (ability to pay) evaluation of each loan application being considered for approval. Second, IDEQ needs to diagnose and correct the errors in its system for reporting the results of the program's MBE/WBE efforts under the EPA/IDEQ capitalization grant agreements.

I would be glad to discuss the report with you. I can be reached at (206) 553-7151. Similarly, Daniel Steinborn, the region's Project Officer for our oversight of the Idaho Water Pollution Control Revolving Fund, would be glad to discuss the report and our recommendations with the IDEQ staff at its convenience. Dan can be reached at (206) 553-2728.

Sincerely,

Michael F. Gearheard  
Director  
Office of Water and Watersheds

Enclosure

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## Executive Summary

On June 30, 2003, the Idaho Clean Water State Revolving Fund (CWSRF) assistance portfolio consisted of 65 loans with a total value of \$171,608,969. Of those projects, 57 with a value of over \$119 million have completed construction and initiated operations. As of the end of state fiscal year (SFY) 2003, approximately \$82 million in principal repayments, interest payments, and fund interest had accrued to the Fund. Most of these resources that were available to the Fund as of the end of SFY 2002 were committed to new loans by the end of SFY 2003.

The CWSRF program's principal strengths include:

- An experienced and competent staff in both the Idaho Department of Environmental Quality's (IDEQ, DEQ or "the Department") central office and its regional offices is carrying out the program.
- A demonstrated willingness on the part of both management and staff to take on new program challenges and adapt the program's administration and implementation to changing and evolving external conditions and needs. For example, in SFY 2002 the DEQ developed its intended use plan for SFY 2003 using a new integrated priority system. This was the first use of this new system. Similarly, in SFY 2004 the Department worked with the state legislature to obtain authority to begin assessing loan fees to pay for the administration of the Fund.
- Each year the program is subjected to a thorough independent financial office by auditors at the Audit Division of the Idaho Legislature's Legislative Services Office. This audit verifies that the program is maintaining its accounting records in accordance with Generally Accepted Accounting Principles (GAAP). An independent audit also provides independent verification to Idaho elected officials and to the EPA that the Idaho Clean Water State Revolving Fund is being administered in accordance with applicable law and regulation and that adequate internal controls are in place to assure that the program's financial statements do not suffer from "material" misstatements.

The Environmental Protection Agency's (EPA) review also found three subjects where additional action by the DEQ would be appropriate:

1. Due to the Supreme Court's decision in Adarand Constructors, Inc. vs Pena, 115 S CT 2097 (1995), revised guidance from EPA's Small, Minority, and Women's Business Enterprises was issued requiring assessments of the availability of qualified MBE/WBE firms in its relevant geographical market. As a result, the negotiated goals of the program have been significantly reduced and disaggregated into construction, supplies, services, and equipment sectors for all capitalization grants since 1999. Quarterly MBE/WBE reports submitted to EPA must show the procurement activity in the construction, supplies, services, and/or equipment categories as well as

between MBE and WBE. Until that is done EPA is unable to ascertain which MBE and WBE goals Idaho may have met, if any, for the fiscal year.

2. Through SFY03 Idaho had used approximately 94% of the funds available to support the costs of administering the CWSRF. Given current usage rates, the program will fully deplete the 4% administrative allowance used to run the program within a few years. Additionally, current plans still anticipate that federal capitalization grants will end sometime during the next several years. The IDEQ obtained legal authority to assess loan fees from the 2004 legislature. IDEQ should continue its effort to develop appropriate protocols and, if necessary, regulations to govern the assessment and collection of these loan fees.
3. The Department currently does not complete any credit worthiness evaluation of a loan applicant. Absent such a credit worthiness evaluation or a financial capability assessment, the Department can't demonstrate that an adequate dedicated source of revenue exists to repay the requested loan, as required by §603(d)(1)(v) of the Clean Water Act and 40 C.F.R. §35.3120(a)(iv). The Department must develop and implement appropriate procedures for completing credit worthiness evaluations on every loan application.

## Introduction

This Program Evaluation Report (PER) summarizes the results of annual performance reviews of the Idaho Clean Water State Revolving Fund (CWSRF) conducted by the U.S. Environmental Protection Agency (EPA), Region 10 for State Fiscal Years 2002 and 2003 (SFY02-03). As EPA, Region 10 was conducting its review and developing this report, the EPA's Office of Water and Office of Groundwater and Drinking Water issued new interim final guidance for the annual reviews that the EPA regions conduct of the state revolving funds under the Clean Water Act and the Safe Drinking Water Act. This PER follows the protocol and format articulated in that guidance<sup>1</sup>.

The guidance changes the structure and content of the reviews in that it identifies a specific set of questions that the regions are to address during the review process. These questions and the answers thereto are presented in a set of Excel worksheets that are attached to this report. The narrative portion of the PER is structured so that it includes five types of content:

1. A description of the program and its achievements and progress during the program year.
2. Tabular summaries of relevant financial data for the program.
3. A discussion of the EPA's significant findings and recommendations, especially those recommendations where action by the state is necessary.

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<sup>1</sup> The guidance was issued in March 2004.

4. Explanatory remarks concerning specific questions and the answers thereto found in the worksheets. These remarks reference the specific questions by their major “categories” in the Excel worksheets (highlighted in **bold** type in the worksheets).
5. Reviews of files for individual loans to verify compliance with project related requirements in the CWSRF program regulations.

The review is based on several critical elements:

1. The SFY 2002 Annual Report submitted by the Idaho Division of Environmental Quality for the fiscal year ending June 30, 2002;
2. The SFY 2003 Annual Report submitted by the Idaho Department of Environmental Quality (DEQ) for the fiscal year ending June 30, 2003;
3. The Clean Water State Revolving Fund Intended Use Plans (IUP) for SFY 2002 and SFY 2003 for the Idaho Clean Water State Revolving Fund;
4. The financial audits of the Idaho Clean Water State Revolving Fund for 2002 and SFY 2003;
5. The SFY 2000-2001 Performance Evaluation Report (PER) published in May 2003;
6. An EPA review of Idaho CWSRF related documents in the EPA grant files maintained by the EPA Regional Office and of data maintained in EPA's National Information Management System (NIMS) with the assistance of the states;
7. A review by DEQ staff of the draft of this report;
8. On-site reviews during which the EPA staff reviewed and discussed program issues with the staff of DEQ and reviewed DEQ files for a few of the loans in the portfolio of Idaho's CWSRF. Some portions of the file review were conducted by the DWSRF Coordinator who also served as our Financial Analyst.

## Scope of the Review

The annual review examined the performance of the Idaho Clean Water State Revolving Fund during State Fiscal Years 2002 and 2003. We reviewed the legal, managerial, technical, financial, and operational capabilities and performances of the program. We paid specific attention to DEQ's compliance with the terms of the Operating Agreement, grant conditions, certifications and assurances, adherence to specific proposals and progress towards stated goals and objectives. We also focused on the pace of the program, Intended Use Plan development, future administration of the program, and the efforts of the program to make loans for nonpoint source water quality projects.

## Idaho DEQ Program Summary

The State of Idaho received its initial capitalization grant on August 24, 1989 and its most recent grant on September 1, 2004 for \$6,471,800. Through June



30, 2003, the CWSRF has received a total of \$96,058,415 in federal grants. The program funding through the end of SFY 2003 is summarized as follows:<sup>2</sup>

• Table 1 Program Summary

Grant ID No.	Amount	Cash Draws	Availability	Match
CS-160001-89	\$4,577,200	\$4,577,200	\$0	\$915,440
CS-160001-90	\$4,738,000	\$4,738,000	\$0	\$947,600
CS-160001-91	\$10,343,215	\$10,343,215	\$0	\$2,068,643
CS-160001-92	\$9,534,900	\$9,534,900	\$0	\$1,906,980
CS-160001-93	\$9,431,000	\$9,431,000	\$0	\$1,886,200
CS-160001-94	\$5,813,800	\$5,813,800	\$0	\$1,162,760
CS-160001-95	\$6,007,800	\$6,007,800	\$0	\$1,201,560
CS-160001-96	\$6,318,400	\$6,318,400	\$0	\$1,263,680
CS-160001-97	\$6,576,800	\$6,576,800	\$0	\$1,315,360
CS-160001-98	\$6,577,300	\$6,577,300	\$0	\$1,315,460
CS-160001-99	\$6,577,900	\$6,577,900	\$0	\$1,315,580
CS-160001-00	\$6,555,200	\$6,555,200	\$0	\$1,311,040
CS-160001-01	\$6,496,100	\$6,496,100	\$0	\$1,299,220
CS-160001-02	\$6,510,800	\$6,064,551	\$446,249	\$1,302,160
<b>TOTALS</b>	<b>\$96,058,415</b>	<b>\$95,612,166</b>	<b>\$446,249</b>	<b>\$19,211,683</b>

The Idaho CWSRF operates as a direct loan program. As of the end of SFY 2003, it had made binding commitments totaling \$171,608,969 for 65 projects. During SFY 2003, it made binding commitments totaling \$41,287,793 for five new projects.<sup>3</sup> Of these 65 projects, 57 with a value of over \$119 million have completed construction and initiated operations as of the end of SFY2003. Five additional projects were under construction as of the end of SFY 2003. The remaining three projects had not started construction as of the end of SFY 2003.

Loans are currently provided with maturities of up to twenty years at a 4% interest rate. Twenty-six such loans exist with another 26 loans having an interest rate of 4.5%. The loan rate for the first two years of the program was set at 4% as an enticement to communities to use the CWSRF. For the next seven years the rate was 4.5% and is reevaluated on an annual basis. The rate was reduced to 4% in October 1998 and remained there through SFY 2001. In SFY 2002 the rate was further reduced to 3.75%. This lower rate was retained in SFY 2003 with the exception of the loan to and through the Soil Conservation Commission. That loan carried a rate of 2.0% to the Commission. For SFY 2004 the interest rate was further reduced to 3.5% (there were no loans in the SFY 2004 IUP through the Commission).

The costs of administering the CWSRF are paid for with money drawn from the Fund. The Clean Water Act allows states to use money from the Fund up to an

<sup>2</sup> Source: National Information Management System (NIMS) Data, Integrated Financial Management System (IFMS) Database, Individual Grant Files

<sup>3</sup> One of these loans was actually for five nonpoint source projects through the Idaho Soil Conservation Commission. The total value of these loans is \$2,673,000. These are the first loans implementing Idaho's nonpoint source water quality program from the Fund.

amount equal to 4% of the cumulative EPA capitalization grant awards. Through the end of SFY 2003, Idaho had used \$3,630,551<sup>4</sup> or 3.8% of the total EPA capitalization grants to date. As noted earlier, this is approximately 94% of the funds available for administration. Although annual administrative costs, both in absolute and relative terms, have been declining over the past four fiscal years, Idaho is fast approaching the point at which it will need to impose loan fees in order to pay the costs of administering the Fund.

## SFY 2000-2001 PER Update

The EPA's program evaluation report for SFY 2000-2001 contained four recommendations. The current status of the IDEQ's response to those recommendations is summarized below.

1. The PER noted that IDEQ needs to provide more detailed information on the efforts taken to insure equal access to the procurement process for small, minority and women's business enterprises. This information must be provided in the quarterly reports submitted by IDEQ. Additionally, the EPA has requested that the IDEQ's annual report to the EPA for SFY 2004 include an evaluation by IDEQ of its success in attaining MBE/WBE goals in SFY 2004.
2. In the last PER we expressed concern regarding the rate at which IDEQ was using the funds available for the administration of the program. As noted elsewhere in this report, since that time the IDEQ has obtained legal authority to start collecting loan fees to help pay the costs of administering the program. It is now working on developing the system for actually collecting and using the proceeds from these loan fees.
3. The SFY 2000-2001 PER indicated that the Idaho Water Pollution Control Revolving Fund needed to increase the rate at which it is committing funds to new loans in order to comply with the EPA's policy on timely and expeditious use of the money in the Fund. In SFY 2002 the dollar volume of new loan commitments declined significantly from SFY 2000. However, in SFY 2003 the program responded by significantly increased the dollar volume of new loan commitments (to a new record high). In SFY 2004, the state's data submission to the EPA's National Information Management System (NIMS) for the CWSRF indicates that IDEQ has maintained this accelerated pace and set another new record high in SFY 2004.
4. Finally, the PER indicated that the Operating Agreement between the EPA and the IDEQ governing the administration of the Idaho Water Pollution Control Revolving Fund needed to be updated. During

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<sup>4</sup> Source: NIMS Data

SFY 2004, the IDEQ and the EPA finished a major revision to the Operating Agreement.

## Required Program Elements

### Annual Report

The state's annual report is the primary device that is used by the state to inform the EPA of the program's progress during the program year within the context of the objectives that the state has set for the program in its annual Intended Use Plan (IUP). It can document the state program's compliance with many of the regulatory requirements applicable to the state as well as the program's compliance with conditions included in the capitalization grant agreements between the state and the EPA. It also, along with any independent financial audits performed for the state fiscal year, can provide a snapshot of the financial condition of the revolving fund.

The IDEQ's annual reports for SFY 2002 and SFY 2003 provide basic summaries of the financial progress of the fund during each fiscal year; that is, they tell the reader the volume of binding commitments executed and identify the projects that received financial assistance from the Fund during the fiscal year. The included financial statements depict the fiscal status of the fund as well as the cash flows that occurred during each fiscal year.

### MBE/WBE Reporting

As noted earlier in this report, the EPA continues to be unable to fully assess the State's progress with the information currently being provided in the IDEQ's periodic reports to the EPA. IDEQ needs to correct this deficiency in future quarterly reports. We are also requesting that the IDEQ provide an annual summary that specifically addresses the status of its efforts to meet the MBE/WBE goals specified in the EPA capitalization grant agreements in its annual report for SFY 2004 and subsequent years.

### Other Matters

All other programmatic matters identified in the EPA's review guidance are addressed in the attached Excel worksheets.

## Required Financial Elements

The Clean Water Act, the CWSRF program regulations at 40 C.F.R. §35.3100 et. seq. and the Operating Agreement include a series of requirements that speak to how a Clean Water State Revolving Fund program manages the funds that are under its care. This portion of the report discusses how the CWSRF has addressed those requirements.

## Acceptance of Grant Payments, 40 CFR §35.3135(a)

For SFY 2002 and SFY 2003, the State agreed to accept payments in the increments shown in Table 2 below. This table also shows the quarterly cash draws from the EPA Automated Clearinghouse Payment System (EPA-ACH).<sup>5</sup>

• Table 2 Grant Payments and Cash Draws

Federal Period	Grant Payments	Cumulative Grant Payments	Quarterly Cash Draws	Cumulative Cash Draws
4Q FY 01	\$260,432	\$83,311,947	\$4,770,949	\$81,745,684
1Q FY 02	\$6,235,668	\$89,547,615	\$7,147,370	\$88,893,054
2Q FY 02	\$0	\$89,547,615	\$498,443	\$89,391,497
3Q FY 02	\$0	\$89,547,615	\$88,023	\$89,479,520
<b>Period Totals</b>	<b>\$6,496,100</b>		<b>\$12,504,785</b>	
4Q FY 02	\$260,432	\$89,808,047	\$54,075	\$89,533,595
1Q FY 03	\$6,250,368	\$96,058,415	\$1,835,347	\$91,368,942
2Q FY 03	\$0	\$96,058,415	\$1,592,342	\$92,961,284
3Q FY 03	\$0	\$96,058,415	\$2,779,466	\$95,740,750
<b>Period Totals</b>	<b>\$6,510,800</b>		<b>\$6,261,230</b>	

## State Match, 40 CFR §35.3135(b)

In awarding capitalization grants the EPA has relied on State letters of credit that are drawn from the State Water Pollution Control Account (WPCA). Transfers are made from State letters of credit, as the 20% match is required when cash draws are made from the capitalization grants. Beginning in SFY 2001, this structure changed and the WPCA is now funded from the Sales Tax by a flat \$4.8 million. The amounts deposited into the WPCA are perpetually appropriated so DEQ need not return to the legislature every year asking to commit funds for the CWSRF match. To date, the State has provided matching funds of \$19,211,682 though more has been appropriated. As of June 30, 2003, State matching contributions were as shown in Table 3 below:<sup>6</sup>

• Table 3 State Match

	Total Federal Payments at 6/30/02	Total Match at 6/30/02	Match %	Total Federal Payments at 6/30/03	Total Match at 6/30/03	Match %
<b>Period Totals</b>	\$89,547,617	\$17,909,522	20%	\$96,058,015	\$19,211,682	20%

## Binding Commitments, 40 CFR §35.3135(c)

The State is required to issue binding commitments equaling at least 120% of the payments received within one year of the payments. As of June 30, 2002,

<sup>5</sup> SFY02-3 Idaho CWSRF IUP Payment Schedules, IFMS Database

<sup>6</sup> Source: SFY02 Idaho CWSRF Annual Report, NIMS Data

the State had received a total of \$89,547,651 in payments. The total binding commitments made as of June 30, 2003 (one year later) was \$171,608,969. The ratio of binding commitments to cumulative payments received one year earlier was 191%, which exceeded the statutory threshold of 120%.

#### Timely and Expeditious Use of Funds, 40 CFR §35.3135(d)

The Clean Water Act and the CWSRF program regulations require that states use the funds available to their CWSRFs in a timely and expeditious manner. This requirement is aimed at assuring that repayments and interest earnings are committed to new projects within a reasonable period of time. EPA has issued guidance that specifies that a state should commit these revenues within one year of receiving them. In situations in which the state has been unable to commit funds at this pace, the guidance requires that the IUP contain a plan for committing funds more rapidly. In prior years the Idaho Water Pollution Control Revolving Fund fell behind this target, primarily due to some large early repayments of existing loans. In SFY 2003 the Idaho program has been significantly more aggressive in executing loans and has closed this gap considerably.

The following table is one way of measuring how effectively the CWSRF program is using all available sources of funding. In SFY 2001 and SFY 2002 the pace of loan executing was near the national average of about 80% . In SFY 2003 the program had a record year, committing 99% of available funds to loans to new projects.

• Table 4 Pace of Project Commitments

	Through SFY01	Through SFY02	Through SFY03
Total Project Assistance Provided*	\$ 119,453,176	\$ 130,321,176	\$ 171,608,969
Total Project Funds Available**	\$ 153,143,624	\$ 160,679,100	\$ 174,166,174
<b>Pace of Loan Issuance Ratio</b>	<b>78%</b>	<b>81%</b>	<b>99%</b>

\*Total Project Assistance Provided: total dollar amount of signed project loans

\*\*Total Project Funds Available: all available funds for project loans; includes Federal grants (minus 4% for administrative costs), state match, repayments, and interest. Funds are considered available if they were either earned in the preceding state fiscal year or were contributed in the capitalization grant and match for the current Intended Use Plan.

#### Rules of Cash Draw, 40 CFR §35.3155(d) & §35.3160

During the two fiscal years, the State requested cash draws totaling more than \$8.5 million. The State continues to maintain compliance with the requirement for proportionality, as shown in Table 5 below:<sup>7</sup>

<sup>7</sup> Source: IFMS Database, NIMS Data

• Table 5 Cash Draws

	Through SFY01	SFY02/3	Total
Total Disbursements*	\$ 93,341,671	\$ 34,619,232	\$ 127,960,903
Total Federal Cash Draws**	\$ 76,846,151	\$ 18,766,015	\$ 95,612,166
<b>Federal Cash Draws as a % of Disbursements</b>	<b>82%</b>	<b>54%</b>	<b>75%</b>

\*Total Disbursements: disbursements for project loans.

\*\* Total Federal Cash Draws: cash drawn from Federal capitalization grants for project loans and program administration.

The lower cash draw ratio in SFY 2002 and SFY 2003 is additional evidence that the Idaho fund is, indeed, revolving. Loans are being executed and projects are being constructed at a pace that is rapid enough to require that incurred costs be reimbursed from funds that have been collected in repayments (and interest) from loans made earlier in the history of the program.

Generally Accepted Accounting Principles (GAAP), 40 CFR §35.3135(h)

The Annual Reports submitted by IDEQ include CWSRF financial reports prepared by IDEQ. Individual Entity Audits conducted by the Idaho State Legislative Services Office for SFY 2002 and SFY 2003 concluded that the financial statements for that period were materially accurate and reliable, and that Idaho CWSRF fiscal operations comply with related laws and regulations. There were no findings in these audit reports and the auditors issued unqualified opinions. The independent audit demonstrated that for these two years the financial statements were prepared in accordance with GAAP.

Perpetuity, 40 CFR §35.3100(a)

SRF programs are to be designed and operated so that the SRF will continue to provide assistance for water pollution control activities in perpetuity. This constraint can operate at cross purposes with the other primary objectives of the water pollution control revolving funds to provide low cost financing for high priority water quality projects and to maximize the benefits of the program by committing and expending the funds for approved purposes in a timely and expeditious manner.

The EPA, Region 10 has stated these program objectives in somewhat simpler form. We have maintained that, generally, we want to see each state water pollution control revolving fund committing funds received (grant awards, loan repayments and interest earnings) within one year of when they are received by the fund. We have said that we consider a state water pollution control revolving fund to be meeting its perpetuity "obligation" if its overall yield (on loans and its invested cash balances) equals or exceeds the rate at which construction costs are increasing as measured by the Engineering News Record's twenty city construction cost index.

The primary concerns with the performance of the Fund as of EPA's last Performance Evaluation were three fold:

1. The pace of loan execution was not keeping up with the availability of funds for assistance to projects. In layman's terms supply was regularly exceeding demand.
2. The interest rates being charged by the Fund to borrowers were significantly higher than those being charged by other states and might have been high enough to discourage project sponsors from applying for assistance.
3. The Fund's management had, on its own initiative, arranged some very large early loan repayments when the Fund's supply of money already exceeded reasonably foreseeable demand.

As noted earlier, in SFY 2002-2004 the IDEQ has reduced the interest rate that the Fund charges on new loans. This, along with the addition of nonpoint source water quality projects to the Fund's array of eligible project types has significantly increased the pace at which loans are being executed. Similarly, the Fund's management has ceased the practice of negotiating early loan repayments in the absence of a specific immediate need for funds that can't be met with existing resources. Table 6, below, summarizes interest rates as they have changed over the last several years.

• Table 6 Comparative Weighted Interest Rates<sup>8</sup>

	SFY99	SFY00	SFY01	SFY02	SFY03
Alaska	3.5%	3.9%	2.0%	2.0%	2.0%
<b>Idaho</b>	<b>4.2%</b>	<b>4.0%</b>	<b>4.0%</b>	<b>3.8%</b>	<b>3.0%</b>
Oregon	3.5%	3.8%	3.7%	3.6%	3.2%
Washington	4.1%	0.6%	1.2%	0.5%	1.0%
National Average	2.6%	2.6%	2.4%	2.5%	2.2%
Bond Buyer Index	5.1%	5.8%	5.3%	5.2%	4.8%

As noted above one of the factors that affect the ability of the Fund to offer assistance over the long-term is the yield that the Fund earns on its invested cash. The Idaho Fund, like virtually all others in the country, has no control over how its idle funds are invested by the State Treasurer's office. Table 7, below, shows how investment yields have evolved over the last several years.

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<sup>8</sup> These are the weighted average interest rates on the new loans executed in each state in the state fiscal year for each state and are reported in the National Information Management System. We do not have the data required to calculate a weighted average interest rate for the loans that are in repayment, nor are we able to calculate a meaningful regional average with the available data.

• Table 7 Investment Yields

<b>Fiscal Year</b>	<b>Investment Earnings</b>	<b>Average Investment Assets</b>	<b>Rate of Return</b>
SFY00	\$ 1,708,138	35,385,032	4.83%
SFY01	\$ 2,680,339	47,297,401	5.67%
SFY02	\$ 2,293,883	56,037,982	4.09%
SFY03	\$ 3,106,065	62,060,773	5.00%

Source: SFY99-SFY03 Idaho CWSRF Annual Reports, Idaho Legislative Services Office Audit Reports for the Idaho Department of Environmental Quality Clean Water State Revolving Fund, NIMS data

The loan yields (shown in Table 8 below) decreased considerably from last year. However, the annual increases in construction costs as measured by the Engineering News Record's (ENR) Construction Cost Index (CCI) for the corresponding period (the state fiscal year) were significantly lower than the loan yield.

• Table 8 Loan Yields

<b>Fiscal Year</b>	<b>Loan Interest Earnings</b>	<b>Average Loans Outstanding</b>	<b>Rate of Return</b>	<b>CCI</b>
SFY00	\$ 1,551,415	\$ 46,696,356	3.3%	3.5%
SFY01	\$ 856,277	\$ 50,189,568	1.7%	0.5%
SFY02	\$ 2,193,400	\$ 57,575,954	3.8%	1.5%
SFY03	\$2,245,417	\$66,834,232	3.4%	1.5%

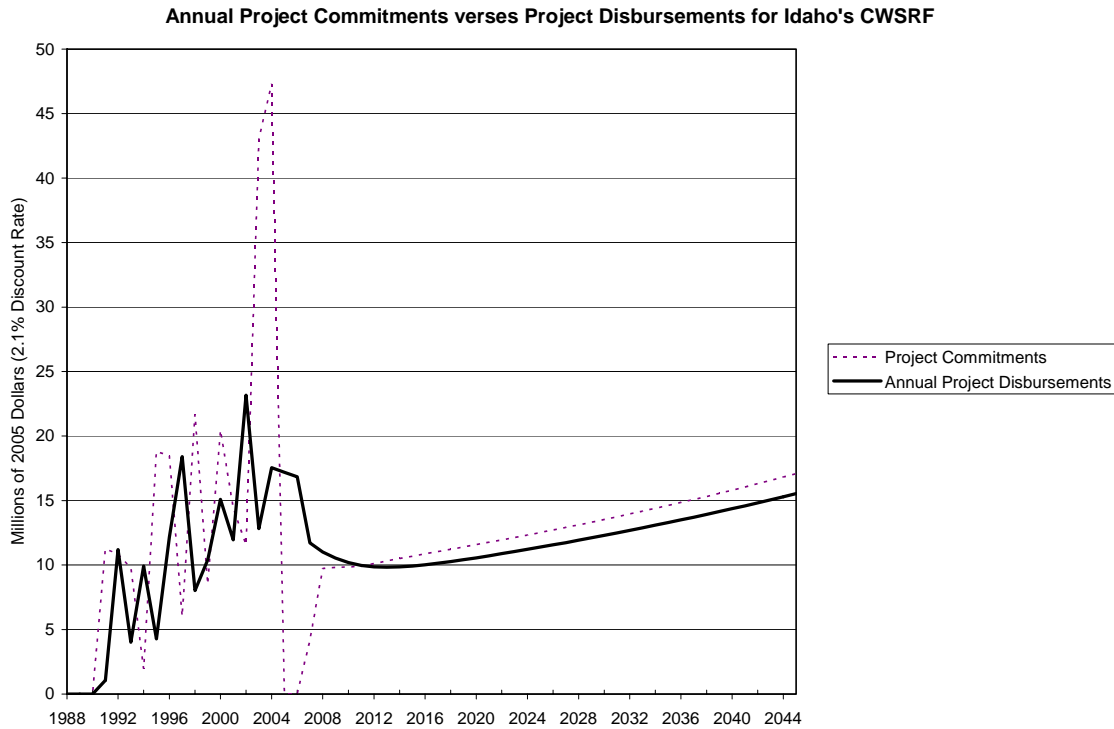
Source: SFY00-03 Idaho CWSRF Annual Reports, NIMS data, CCI data.

The ten year average increase in ENR's twenty city construction cost index was 2.1% per year for the 1993-2003 period. This data suggests that loan and investment yields, even with the reduced interest rates being offered to borrowers and the lower returns being earned by the State Treasurer due to market conditions, are keeping pace with long term increases in construction costs. This suggests that the Fund is maintaining its real buying power and that it will continue to be able to offer assistance to eligible projects in the future.

Another way to look at this subject is to use the EPA developed Financial Planning Model to forecast a revolving fund's ability to make new loans. This model is updated every year to incorporate current data on state programs from the EPA's National Information Management System. As part of our review we used the model to create such a forecast. The resulting graph is displayed on the next page in figure 1.



• Figure 1 Forecasted Loan Making Capacity



This modeled forecast suggests that (even without any new capitalization grants), at current interest rates and using historic investment yields for the fund, Idaho will be able to increase its ability to provide financial assistance to eligible water quality projects over the long term.

#### Underwriting

Both the Clean Water Act, at § 603(d)(1)(v), and the program regulations, at 40 C.F.R. §35.3120(a)(iv), require that loan recipients establish a dedicated source of repayment for the loans that they receive from a state water pollution control revolving fund. The Department does not formally evaluate a loan applicant's ability to repay a requested loan.

The State's program regulations, found in the Idaho Administrative Code at IDAPA 58.01.12.010, provide that:

No loans shall be awarded for projects unless the applicant has demonstrated and certified that it has the legal, technical, managerial, and financial capabilities as provided for in these rules to ensure construction, operation and maintenance, and to repay principal and interest which would be due on a loan.

These regulations also provide, at IDAPA 58.01.12.010.01:

Before an application will be considered complete, the applicant must submit all necessary information on a form prescribed by the Department along with an analysis of that information. The information shall include, but not be limited to, demographic information of the applicant, estimated construction or implementation costs, annual operating costs, and information regarding the financing of the project, including the legal debt limit of the applicant and the existence and amount of any outstanding bonds or other indebtedness which may affect the project;

A typical loan agreement will require that the borrower “provide for the accumulation of funds” to, among other things, repay the principal and interest on the loan. The loan agreement does not specify either a coverage ratio or the amount of money that should be held in a debt service reserve. A typical loan is usually secured with a borrower issued tax exempt revenue bond. The bond resolution and bonding documents may require that the borrower create and fund a debt service reserve and may also specify a coverage ratio between net system revenues and annual debt service obligations on the bond (and all senior debt instruments).

Under the Idaho Revenue Bond Act , Idaho Code Title 50, Chapter 1027 et. seq., Idaho municipalities are normally required to hold a vote of the people before issuing bonds to finance the construction of such publicly owned capital facilities as public owned wastewater treatment works. Alternatively, under Idaho Code Title 7 Chapter 13, a municipality may obtain “judicial confirmation” that the capital expenses being incurred are “ordinary and necessary.” If such an order is issued by the Court, then the municipality does not need to hold a vote of the people before issuing the associated bonds. For its Water Pollution Control Revolving Fund, the IDEQ has relied on this protocol in lieu of completing an actual assessment of a loan applicant’s ability to repay the proposed loan.

Applicable national guidance suggests that states should have procedures in place for assuring the adequacy of a borrower’s dedicated source of repayment.<sup>9</sup> In our view, this implies that before the state enters into a loan agreement with a borrower (loan applicant) the state will have completed and documented an assessment of the adequacy of the loan applicant’s proposed repayment source. This might take the form of a formal credit worthiness evaluation or financial capability assessment. Although the EPA recognizes that the Idaho Water Pollution Control Revolving Fund has never experienced a default by a borrower, we consider this omission from the Department of Environmental Quality’s procedures to be serious and urge the Department to develop and implement an appropriate protocol as soon as possible.

In our view there are four essential elements to a prudent system for credit worthiness evaluation system used by a state water pollution control revolving fund:

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<sup>9</sup> See, the answers to questions II.B.1.b.3, II.B.1.c.2, II.B.1.c.3, II.B.1.c.4 and II.B.1.c.4 and II.B.1.c.5 in the Cumulative SRF Questions and Answers, dated July 1990.

1. Explicit pass/fail evaluation criteria that address economic and other factors relevant to a loan applicant's ability to repay a loan over time;
2. Guidance governing how reviewers will review and assess a loan application against those criteria and how reviewers will weigh the results when the results for different criteria conflict;
3. A clearly defined process for doing and documenting the mathematical calculations to demonstrate that the proposed revenue stream would be sufficient to amortize the loan and meet any anticipated coverage and debt service reserve requirements;
4. A decision on the acceptability of the credit worthiness evaluation and the recommendations resulting from it (whether to offer a loan and, if so, with what financial conditions attached to the loan) by an appropriate management official that is documented in the record.

## Review of Project Management Practices

The Clean Water Act and the CWSRF program regulations also contain a series of requirements that address how Clean Water State Revolving Fund programs are to manage projects that receive loans and how those projects are to be planned and constructed. With each annual review, the EPA reviews a few individual projects to determine how and how well the state is addressing this extensive set of requirements. For this annual review, we examined the project files for three loans that the program made to different communities for publicly owned treatment works projects. In each instance the file reviews, included in the project review appendix, documented that the state is effectively managing individual loan projects.

## Recommendations

As highlighted in the Executive summary, the EPA makes the following recommendations for corrective action by the Idaho Department of Environmental Quality:

1. The Department must improve the information being provided on its quarterly reports for MBE/WBE progress provide all of the information required to document that progress. Additionally, the Department should, in its SFY 2004 and subsequent annual reports to the EPA include a summary analysis of the program's MBE/WBE compliance efforts that demonstrates the degree to which the MBE/WBE targets specified in the EPA capitalization grant awards have been met by the Department and the program's sub-recipients (borrowers).

2. The Department should expedite the completion of the work necessary to allow the program to collect and use loan fees to pay the costs of administering the program.
3. The Department must develop and implement a documented protocol for evaluating the creditworthiness of each applicant for a loan from the Fund.

## Project File Reviews Appendix

### CWSRF File Review Summary- Coeur d'Alene Wastewater Treatment Plant

Item Description	What, Where & How Met	Explanation of requirement (if needed)
Project Name	Coeur d'Alene Wastewater Treatment Plant Upgrade, Phase 4B	
Project Loan Number	1899-03	
Date of Loan	Original loan executed July 16, 2002. Loan amended to increase amount on June 4, 2003	The increased loan amount was to account for an increase in estimated costs as project design work progressed.
Project Description	The project would design and construction several improvements and additions to the existing Wastewater Treatment Plant.	
Amount of Loan	\$15,000,000 (increased from \$11,000,000)	
Need for Project	The improvements are necessary to keep the WWTP in compliance with the terms of its NPDES permit.	
Loan Terms (rate/amortization period)	20 years at 3.75%	
Type of assistance under §603(d)	Low cost, below market rate, loan.	Direct loan, loan guarantee, loan insurance purchase, refinance (includes refunding and advance refunding) (Check borrower's documentation such as the resolution enacted by its legislative body authorizing the debt)

Item Description	What, Where & How Met	Explanation of requirement (if needed)
Financial Capability Assessment/Repayment Source Evaluation	<p>District Court for the First Judicial District of the State of Idaho in and for the County of Kootenai issued on 29 November 2001 a judicial confirmation that the costs of this WWTP upgrade are an “ordinary and necessary” expense within the meaning of Idaho law. This finding allows the City of Coeur d’Alene to issue and sell revenue bonds to finance the project and to pledge lawfully available revenues to repay that debt without a vote of the electorate.</p> <p>No actual evaluation performed.</p>	Was one conducted? If so, how is it documented in the file?
Loan Security Provisions	<p>The loan requires the borrower to provide for the accumulation of funds . . . for the purpose of establishing a fund dedicated solely to the repayment of principal and interest on the loan. The loan is secured by a revenue bond adopted by municipal ordinance. The ordinance specifies the terms and conditions of the bond, provides for creation of appropriate accounts and provides for the funding of a reserve account.</p>	What security provisions are included in the loan? (Such as state-aid intercept, coverage ratio requirement, debt service reserve)

Item Description	What, Where & How Met	Explanation of requirement (if needed)
	<p>The reserve account is to contain an amount equal to the lesser of (i) the maximum annual debt service or (ii) 125% of the average annual debt service on the "Parity Bonds" (which include these bonds) but no more than 10% of the face amount of the parity bonds.</p> <p>The ordinance specifies that the reserve account is to be funded from the proceeds of the bond sale. This should be checked.</p> <p>Finally the ordinance commits the borrower to maintaining a 125% coverage ratio between net revenues and its annual debt service obligations.</p>	
Facility Plan available/Approved	Final Facility plan approved by IDEQ on November 15, 2001.	
Plans & Specs Approval	Design work is underway	
Bid Advertisement and Approval	N/A	
MBE/WBE Compliance	Loan terms require compliance by borrower and contractors.	
Initiation of Operations/Performance Certification [§204(d)(2)] [equivalency]	N/A (not under construction yet)	

Item Description	What, Where & How Met	Explanation of requirement (if needed)
BPWTT [Best Practical Wastewater Treatment Technology; §201(b)] [equivalency]	Facilities Plan provides for BPWTT and structures facility so that AWT can be added if required by later NPDES permits.	
Eligible Categories [§201(g)(1)] [equivalency]	Conventional POTW—all eligible.	File should include information documenting that all portions of the project are eligible
Reclaim, Reuse [Alternative management techniques; e.g., land treatment, small systems, reclamation and reuse of water must be considered] §201(g)(2) [equivalency]	Plan provides for continued reuse of biosolids.	
Infiltration/Inflow §201(g)(3) [equivalency]	Infiltration not an issue. FP contains basic recommendations on addressing inflow.	
Innovative/Alternative Treatment Technology (§201(g)(5) [equivalency]	Facility planning examined several alternatives for each major component of the treatment system. Options somewhat limited by the fact that the project upgrades an existing facility. Not a Greenfield project.	
Recreation & Open Space [§201(g)(6)] [equivalency]	N/A	
CSO Funding Limitations [§201(n)(1-2)] [equivalency]	N/A	If they (20%) are exceeded their needs to be documentation that the Governor certified it as a priority
Capitol Financing Plan [§201(o) [equivalency]]	N/A	How did the state assist or encourage the development of a capitol financing plan
Water Quality Management Plans [§204(a)(1)] [equivalency]	The Facilities Plan's EA documents that the proposal is consistent with the regional plan.	Is the project consistent with applicable plans (§208, §303)



Item Description	What, Where & How Met	Explanation of requirement (if needed)
Operation and Maintenance [§204(a)(2)] [equivalency]	Ease of O&M was one of the considerations in the development and evaluation of alternatives in the facilities plan	Has the applicant made proper provisions for the operation and maintenance of the POTW?
User Charge System [§204(b)(4)] [equivalency]	The facilities plan evaluates the affordability of the project. The loan agreement requires that the develop an equitable user charge system and that this system be approved by IDEQ and enacted by the borrower before the final payment is made by IDEQ.	If the system of user charges is other than based on metered flow the applicant must (a) establish a system of charges that will produce the funds necessary to operate and maintain the POTW and (b) establish a procedure to notify the residential user of the proportion of the total payment that will be allocated to the cost of waste treatment services.
Collection Systems [§211] [equivalency]	N/A	Replacement/rehabilitation must be essential to system operation
Cost Effectiveness [§218] [equivalency]	The Facilities Plan evaluated the present-worth costs of the alternatives for each major segment of the project.	Is the selected alternative cost-effective, was value engineering performed for projects costing more than \$10,000,000
Davis Bacon Act [§512] [equivalency]	N/A	Were D-B wage rates posted at the site and paid to employees (for projects before 1 October 1994)
Environmental Review [§511(c)(1)] [equivalency]	Finding of No Significant Impact issued December 18, 2001 based on the Final Facilities Plan dated September 2001. The FNSI addressed both Phase IVB and Phase IVC. The latter phase addresses compliance with ammonia-nitrogen limits and with increasing wastewater flow due to population growth. The EA in the Facilities Plan	Was an environmental review completed in accordance with the SERP?

Item Description	What, Where & How Met	Explanation of requirement (if needed)
	supplemented a Final EIS that evaluated regional wastewater management options.	
Was the appropriate type of environmental review conducted	Yes	FNSI, categorical exclusion, EIS
If another agency's environmental review was adopted, is the adoption process appropriately documented	N/A	Describe documentation of the adoption
Public Notice	The FNSI was published five times in the local newspaper over a period of one month.	Was proper public notice given during the environmental review process?
Public Hearing	A public hearing was held on the facilities plan on August 17, 2001 during a regularly scheduled City Council meeting. There was 30 days advance public notice of the public hearing.	Was a hearing held?
Was an appropriate range of alternatives evaluated	The facilities plan considered several alternatives for each major component of the project.	
Were other environmental review considerations adequately addressed	The EIS on the regional alternatives considered the broader system. Population and load forecasts included in the Facilities Plan were used to develop a phased approach to construction in order to avoid building too much capacity.	Were population projections and design basis flow estimates reasonable? Was the project evaluated within the context of the broader system so that cumulative effects could be appropriately evaluated? Was the study area large enough to encompass all of the area potentially affected by the project's construction and operation?
Endangered Species Act	FWS consulted by sponsor. FWS indicated it was focusing on EPA's standards setting for the Spokane River and offered	How was ESA consultation handled?

Item Description	What, Where & How Met	Explanation of requirement (if needed)
	no comments on the Facilities Plan. EPA made a no impact determination in its NDPES permit for the plant.	
National Historic Preservation Act	The SHPO was contacted during the facilities plan development process. In response to the SHPO's advice additional archeological work was conducted that verified that there were no artifacts or cultural resources at risk. The city will also be consulting with the Coeur d'Alene Indian tribe to insure that no tribal archeological, cultural or historical resources are harmed.	Is SHPO contact appropriately documented?
Archeological & Historic Preservation Act	See above.	
Wild & Scenic Rivers Act	N/A	
Coastal Zone Management Act Compliance	N/A not a coastal state	Consistency certification? State CZM permit?
Coastal Barriers Resource Act	N/A	N/A in Region 10
Farmland Protection Act	N/A	Urban location
E.O. 11990 Wetlands Protection	Not explicitly mentioned in facility plan or EA	Were wetlands appropriately identified and avoided or protected?
E.O. 11888 Floodplain Management Act	The treatment plant site is protected by an existing flood control dike.	Were floodplain issues evaluated?
Clean Air Act Compliance	SIP compliance not directly mentioned in the facilities plan. However, the plan evaluates	Does the project comply with the SIP?

Item Description	What, Where & How Met	Explanation of requirement (if needed)
	compliance with applicable requirements of the Clean Air Act and of corresponding provisions of the Idaho code and indicates the expanded facility will comply with applicable provisions.	
Safe Drinking Water Act	N/A	Sole Source Aquifer review?
Civil Rights Act	Report submitted to the EPA on 7/23/2002	Pre-award compliance review completed?
E.O. 11246	The loan agreement requires that the borrower comply with applicable state and Federal civil rights requirements	Contract language re EEO?
MBE/WBE	The loan agreement includes appropriate provisions governing MBE/WBE procurement.	Compliance by borrower/contractor
E.O. 12898 Environmental Justice	Not explicitly addressed in the facilities plan.	
Small Business & Rural Communities Act	These requirements are implicitly incorporated in the loan agreement in the same paragraph that addresses EEO.	
Uniform Relocation Act	N/A (no relocations)	
Debarment & Suspension	Loan term prohibits use of debarred contractors.	

# CWSRF File Review Summary-Payette Wastewater Treatment Plant Upgrade

Item Description	What, Where & How Met	Explanation of requirement (if needed)
Project Name	Payette Wastewater Treatment Plant Upgrade to increase hydraulic capacity, reduce phosphorus discharges (comply with anticipated TMDL) and meet wastewater treatment needs of anticipated population growth.	
Project Loan Number	1898-04	
Date of Loan	November 6, 2000	
Project Description	Upgrade to the existing wastewater treatment facility including installation of fine screening, headwork channel modifications, replacement of influent grit removal, plant piping modifications, screw pump replacement and sludge piping and pumping replacement.	
Amount of Loan	\$1,200,000	
Need for Project	Several major system components were in need of replacement. Additionally, the system need to be expanded to properly treat future increased waste loads resulting from anticipated normal population growth. Finally, the system needed to add phosphorus removal to its treatment regime in order to comply with a waste	

Item Description	What, Where & How Met	Explanation of requirement (if needed)
	load allocation being developed under a TMDL.	
Loan Terms (rate/amortization period)	20 years @ 4.0%, biannual repayments	
Type of assistance under §603(d)	Direct loan	Direct loan, loan guarantee, loan insurance purchase, refinance (includes refunding and advance refunding) (Check borrower's documentation such as the resolution enacted by its legislative body authorizing the debt)
Financial Capability Assessment/Repayment Source Evaluation	<p>"Financial Assessment" document in loan application shows project cost estimates, annual O&amp;M cost estimates for the existing facility, assessed valuations of community, and community population. Legal opinion from Payette's outside counsel stating that the Judicial Confirmation Judgment effectively authorizes the City to issue a promissory note for the project loan that will pledge net system revenues to repay the loan.</p>	<p>Was one conducted? If so, how is it documented in the file?</p> <p>This project was one subject to the "Judicial Confirmation" provision allowed under Idaho's Constitution. This allows a District Judge to determine that the debt would be incurred to pay costs that are "ordinary and necessary" within the meaning of Article 8, Section 3 of the Idaho Constitution. This finding allows the municipality to incur the debt and pledge appropriate revenues to amortize the debt without a prior vote of the electorate. Such a determination was made on September 18, 2000, and this determination was used to authorize a revenue pledge by the community.</p> <p>The file contains data concerning the city's FY2000 budget (revenues and expenses) including those for the wastewater system. There is no documentation in the file of any evaluation of the loan applicant's ability to repay the loan. The IDEQ program regulations do require that the loan applicant submit both information and an analysis of that information that demonstrates that the applicant has the "legal, technical, managerial and financial capabilities" required to ensure construction and repay the loan. No</p>

Item Description	What, Where & How Met	Explanation of requirement (if needed)
		analysis was in the file.
Loan Security Provisions	A reserve account equal to 1 years worth of P&I is required to be established within 5 years. Also a promissory note is required by the loan agreement (but was misfiled)	What security provisions are included in the loan? (Such as state-aid intercept, coverage ratio requirement, debt service reserve)
Facility Plan available/Approved	Facility plan submitted with application for loan. Applicant could not locate the DEQ approval letter.	
Plans & Specs Approval	The Plans and Specifications were approved in a letter dated August 10, 2001.	
Bid Advertisement and Approval	The bid was advertised for three weeks (that was accepted by DEQ). Five bids were received. IDEQ authorized award to the low bidder in a letter dated October 15, 2001	
MBE/WBE Compliance	Bidders were informed of their responsibility to take the six affirmative steps and certified that they did so. The bidder receiving the award did not have any qualifying subcontractors.	
Initiation of Operations/Performance Certification [§204(d)(2)] [equivalency]	Not due yet at the time the file was given to EPA for review.	
BPWTT [Best Practical Wastewater Treatment Technology; §201(b)] [equivalency]	This upgrade maintained the facility's ability to provide at least secondary treatment (nutrient	

Item Description	What, Where & How Met	Explanation of requirement (if needed)
	removal is normally consider advanced waste treatment)	
Eligible Categories [§201(g)(1)] [equivalency]	POTW upgrades are clearly eligible under §201(g)(1)	File should include information documenting that all portions of the project are eligible
Reclaim, Reuse [Alternative management techniques; e.g., land treatment, small systems, reclamation and reuse of water must be considered] §201(g)(2) [equivalency]	Facilities plan did not examine water reclamation or reuse. See I/A for land treatment discussion.	
Infiltration/Inflow §201(g)(3) [equivalency]	Facility planning included an I/I analysis and a sewer system evaluation survey	
Innovative/Alternative Treatment Technology (§201(g)(5) [equivalency]	Facilities plan looked at two different land treatment alternatives before recommending continued discharge to surface waters.	
Recreation & Open Space [§201(g)(6)] [equivalency]	N/A	
CSO Funding Limitations [§201(n)(1-2)] [equivalency]	N/A	If they (20%) are exceeded their needs to be documentation that the Governor certified it as a priority
Capital Financing Plan [§201(o) [equivalency]	Not documented in the file.	How did the state assist or encourage the development of a capital financing plan
Water Quality Management Plans [§204(a)(1)] [equivalency]	No §208 plan. Facility would implement a TMDL developed under §303	Is the project consistent with applicable plans (§208, §303)
Operation and Maintenance [§204(a)(2)] [equivalency]	Loan agreement requires the submission by the borrower of an O&M plan and its approval by IDEQ. The manual was approved in a letter dated March	Has the applicant made proper provisions for the operation and maintenance of the POTW?



Item Description	What, Where & How Met	Explanation of requirement (if needed)
	12, 2003.	
User Charge System [§204(b)(4)] [equivalency]	Loan agreement requires the submission by the borrower of a user charge system and approval of that system by DEQ before final loan disbursement to the borrower. Sewer use ordinance including user charge system included in project file.	If the system of user charges is other than based on metered flow the applicant must (a) establish a system of charges that will produce the funds necessary to operate and maintain the POTW and (b) establish a procedure to notify the residential user of the proportion of the total payment that will be allocated to the cost of waste treatment services.
Collection Systems [§211] [equivalency]	N/A—no collection system improvements included in scope of work	Replacement/rehabilitation must be essential to system operation
Cost Effectiveness [§218] [equivalency]	Cost-effective alternative selected, no VE required due to small project size.	Is the selected alternative cost-effective, was value engineering performed for projects costing more than \$10,000,000
Davis Bacon Act [§512] [equivalency]	N/A	Were D-B wage rates posted at the site and paid to employees (for projects before 1 October 1994)
Environmental Review [§511(c)(1)] [equivalency]	The sponsor completed an environmental information document (EID) as part of the facilities planning process.	Was an environmental review completed in accordance with the SERP?
Was the appropriate type of environmental review conducted	File indicates that the project was subject to a categorical exclusion but does not contain a copy of the categorical exclusion.	FNSI, categorical exclusion, EIS
If another agency's environmental review was adopted, is the adoption process appropriately documented	N/A	Describe documentation of the adoption
Public Notice	Public notice was given in the local newspaper, as required by law, before the city petitioned the	Was proper public notice given during the environmental review process?

Item Description	What, Where & How Met	Explanation of requirement (if needed)
	Idaho District Court for a Judicial Confirmation that the debt incurred would be for “ordinary and necessary” expenses.	
Public Hearing	A public hearing was held by the City on the request for Judicial Confirmation on June 5, 2000. Public hearings were held by the sponsor on the Facilities Plan and EID on November 16, 1998 and December 6, 1999.	Was a hearing held?
Was an appropriate range of alternatives evaluated	Yes—the suite of alternatives seems to have been appropriate to the needs being addressed	
Were other environmental review considerations adequately addressed	Both population projections and design flow estimates seem reasonable.	Were population projections and design basis flow estimates reasonable? Was the project evaluated within the context of the broader system so that cumulative effects could be appropriately evaluated? Was the study area large enough to encompass all of the area potentially affected by the project’s construction and operation?
Endangered Species Act	The EID states that bald eagles are present in the project area but that no direct impacts are anticipated. Does not discuss whether or how the FWS was consulted.	How was ESA consultation handled?
National Historic Preservation Act	Not addressed in EID	Is SHPO contact appropriately documented?
Archeological & Historic Preservation Act	Not addressed in EID	
Wild & Scenic Rivers Act	No Wild & Scenic rivers in the study area.	

Item Description	What, Where & How Met	Explanation of requirement (if needed)
Coastal Zone Management Act Compliance	N/A not in coastal zone	Consistency certification? State CZM permit?
Coastal Barriers Resource Act		N/A in Region 10
Farmland Protection Act	No prime or unique farmland designated in the study area. No direct impacts on agricultural lands. Development facilitated by the WWTP system could encroach on agricultural areas.	
E.O. 11990 Wetlands Protection	The facility planning did not identify an wetlands impacts.	Were wetlands appropriately identified and avoided or protected?
E.O. 11888 Floodplain Management Act	Neither the Facilities Plan nor the EID specifically locate the treatment plant with respect to the 100 year flood plain. What appear to be the IDEQ engineer's marks on one of the maps suggests that the plant is immediately adjacent to the 100 year floodplain.	Were floodplain issues evaluated?
Clean Air Act Compliance	The EID indicates minimal air quality impacts during construction. Compliance with the SIP is not addressed in the EID.	Does the project comply with the SIP?
Safe Drinking Water Act	N/A	Sole Source Aquifer review?
Civil Rights Act	Yes submitted to EPA, Region 10 on November 14, 2000	Pre-award compliance review completed?
E.O. 11246	Winning bidder certified that it would comply with the Executive Order and relevant rules,	Contract language re EEO?

Item Description	What, Where & How Met	Explanation of requirement (if needed)
	regulations and orders of the Secretary of Labor (in bid document)	
MBE/WBE	Loan Agreement required borrower to take steps to insure that MBE/WBE businesses received work.. Borrower required bidders to take the six affirmative steps. Bidders certified that they implemented these steps. Winning bid included no minority or women owned subcontractors	Compliance by borrower/contractor
E.O. 12898 Environmental Justice	Pre-award compliance review under the Civil Rights Act satisfies this E.O.	
Small Business & Rural Communities Act		
Uniform Relocation Act	N/A	
Debarment & Suspension	IDEQ project engineer verified that the winning bidder was not on the debarred and suspended contractors list	

CWSRF File Review Summary-Pocatello, Phase II Wastewater Treatment Facility Upgrade

Item Description	What, Where & How Met	Explanation of requirement (if needed)
Project Name	Pocatello, Phase II Wastewater Treatment Facility Upgrade	
Project Loan Number	1898-09	
Date of Loan	August 15, 2001	The project ranked seventh on the state's SFY 2001 Intended Use Plan's project priority list. The grant award for the SFY 2002 IUP was executed on August 29, 2001 so this project was eligible to receive the loan at the time that the loan was executed.
Project Description	Phase 2 improvements including replacement of primary clarifier mechanisms, replacement of failing gravity thickener with new pump stations, replacement of undersized thickeners with larger thickeners, replacement of undersized outfall line, replacement of primary effluent motors and controls and a new laboratory building.	
Amount of Loan	\$5,850,000 (\$6,130,314.98 with accrued interest during construction).	
Need for Project	The WWTP was originally constructed in 1959 as a primary treatment facility. Modifications over the years upgraded it to provide secondary treatment by 1973. Since that time population in the service area has continued to grow and there has been and	

Item Description	What, Where & How Met	Explanation of requirement (if needed)
	continues to be commercial and industrial development that is increasing waste loads delivered to the plant. Several components in the plant need to be replaced because they are at the end of their useful lives. Additionally, plant capacity needs to be expanded to handle the increasing waste loads and to provide for nutrient removal in order to protect aquatic life in the receiving water.	
Loan Terms (rate/amortization period)	20 years @ 3.75%, biannual repayments	
Type of assistance under §603(d)	Direct loan	Direct loan, loan guarantee, loan insurance purchase, refinance (includes refunding and advance refunding) (Check borrower's documentation such as the resolution enacted by its legislative body authorizing the debt)
Financial Capability Assessment/Repayment Source Evaluation	"Financial Assessment" document in loan application shows project cost estimates, annual O&M cost estimates, bond market forecast, assessed valuations of community, and community population.	Was one conducted? If so, how is it documented in the file? Unclear. However, this project was another one subject to the "Judicial Confirmation" provision allowed under Idaho law. This allows a District Judge to determine that the project is ordinary and necessary. Such a determination was made on August 10, 2001, and this determination was used to back a revenue pledge by the community.
Loan Security Provisions	A reserve account equal to 1 years worth of P&I is required to be established within 5 years. Also promissory note is attached to loan contract. A Council Resolution (unsigned) was also	What security provisions are included in the loan? (Such as state-aid intercept, coverage ratio requirement, debt service reserve)

Item Description	What, Where & How Met	Explanation of requirement (if needed)
	in the file. That Resolution set up the accounts and the debt service reserve for the final amount of the loan.	
Facility Plan available/Approved	Facilities plans for both the collection system and the WWTP were completed in June 1997.	
Plans & Specs Approval	Approved by letter dated May 4, 2001. Low voltage switch gear procurement plans and specifications approved separately in a letter dated July 12, 2002.	
Bid Advertisement and Approval	<p>Pocatello advertised for bids for a full month in the Idaho State Journal (once per week for four weeks in April 2001) for the main contract.</p> <p>Three bids were received. DEQ authorized awarding the contract to the low responsive/responsible bidder by letter dated July 16, 2001.</p> <p>The contract for the primary clarifiers was advertised for 20 days. Pocatello explicitly solicited bids from three potential suppliers. It received only one bid. Approval of the award was given by letter dated March 6,</p>	

Item Description	What, Where & How Met	Explanation of requirement (if needed)
	2001.	
MBE/WBE Compliance	Loan offer/contract requires borrower to address MBE/WBE. Pre-bid conference minutes for the main contract note that potential bidders were informed that MBE/WBE requirements did apply to this project	
Initiation of Operations/Performance Certification [§204(d)(2)] [equivalency]	Required by the loan offer and agreement.	
BPWTT [Best Practical Wastewater Treatment Technology; §201(b)] [equivalency]	The project upgrades the existing WWTP so that it can continue to provide secondary treatment and provides for advanced waste treatment when that would be required by the NPDES permit (not revised and reissued at the time of the facilities planning).	
Eligible Categories [§201(g)(1)] [equivalency]	This project upgraded a POTW. All major portions of project are eligible.	File should include information documenting that all portions of the project are eligible
Reclaim, Reuse [Alternative management techniques; e.g., land treatment, small systems, reclamation and reuse of water must be considered] §201(g)(2) [equivalency]	Facilities plan examined land treatment and determined that it would be prohibitively expensive.	
Infiltration/Inflow §201(g)(3) [equivalency]	Evaluated in Facility Plan	
Innovative/Alternative Treatment Technology (§201(g)(5) [equivalency]	Not addressed in the Facilities plan	
Recreation & Open Space [§201(g)(6)] [equivalency]	N/A	



Item Description	What, Where & How Met	Explanation of requirement (if needed)
CSO Funding Limitations [§201(n)(1-2)] [equivalency]	N/A (Although there are improvements to the collection system via pump station replacements this is not a collection system project)	If they (20%) are exceeded their needs to be documentation that the Governor certified it as a priority
Capitol Financing Plan [§201(o)] [equivalency]	Not addressed	How did the state assist or encourage the development of a capitol financing plan
Water Quality Management Plans [§204(a)(1)] [equivalency]	Not addressed explicitly in the facilities plan or the EID	Is the project consistent with applicable plans (§208, §303)
Operation and Maintenance [§204(a)(2)] [equivalency]	Loan offer/contract requires DEQ approval of O&M Manual before final loan disbursement.	Has the applicant made proper provisions for the operation and maintenance of the POTW?
User Charge System [§204(b)(4)] [equivalency]	Loan agreement indicates that the user charge system was completed before the loan was signed..	If the system of user charges is other than based on metered flow the applicant must (a) establish a system of charges that will produce the funds necessary to operate and maintain the POTW and (b) establish a procedure to notify the residential user of the proportion of the total payment that will be allocated to the cost of waste treatment services.
Collection Systems [§211] [equivalency]	N/A	Replacement/rehabilitation must be essential to system operation
Cost Effectiveness [§218] [equivalency]	Individual components had their costs analyzed in the facilities plan. No overall evaluation was required (project cost under \$10 million) or documented in the facilities plan.	Is the selected alternative cost-effective, was value engineering performed for projects costing more than \$10,000,000
Davis Bacon Act [§512] [equivalency]	N/A	Were D-B wage rates posted at the site and paid to employees (for projects before 1 October 1994)
Environmental Review [§511(c)(1)] [equivalency]	An environmental information	Was an environmental review completed in accordance

Item Description	What, Where & How Met	Explanation of requirement (if needed)
	document was developed as a part of the facility planning process. A Finding of No Significant Impact was issued and subjected to public review. No comments were submitted by the public. The original FNSI was issued July 2, 1997. It was affirmed for Phase 2 of the project on June 1, 2001.	with the SERP?
Was the appropriate type of environmental review conducted	A Finding of No Significant Impact seems appropriate based on our reading of the EID. However, the scope of the EID for the collection system part of the work was inappropriately limited to that work that would be financed with the SRF loan.	FNSI, categorical exclusion, EIS
If another agency's environmental review was adopted, is the adoption process appropriately documented	N/A	Describe documentation of the adoption
Public Notice	A public hearing before the City Council was advertised three times over a two week period in the Idaho State Journal. Separate public notice was published by IDEQ when it issued the FNSI.	Was proper public notice given during the environmental review process?
Public Hearing	City Council hearing held on May 15, 1997.	Was a hearing held?
Was an appropriate range of alternatives evaluated	A reasonable range of alternatives were evaluated for each major component in the	

Item Description	What, Where & How Met	Explanation of requirement (if needed)
	upgrades.	
Were other environmental review considerations adequately addressed	Population estimates and flow estimates appear to be based on sound analysis. EID's evaluation of environmental effects seemed to ignore effects of other changes going on in the study area over the life of the project.	Were population projections and design basis flow estimates reasonable? Was the project evaluated within the context of the broader system so that cumulative effects could be appropriately evaluated? Was the study area large enough to encompass all of the area potentially affected by the project's construction and operation?
Endangered Species Act	Copy of draft EA sent to FWS. No comments received.	How was ESA consultation handled?
National Historic Preservation Act	Copy of draft EA sent to SHPO by Pocatello's facility planning consultant. No comments received. IDEQ also consulted with the SHPO before issuing the FNSI.	Is SHPO contact appropriately documented?
Archeological & Historic Preservation Act	See above.	
Wild & Scenic Rivers Act	N/A	
Coastal Zone Management Act Compliance	N/A	Consistency certification? State CZM permit?
Coastal Barriers Resource Act		N/A in Region 10
Farmland Protection Act	NRCS consulted during facilities planning.	
E.O. 11990 Wetlands Protection	No wetlands impacts	Were wetlands appropriately identified and avoided or protected?
E.O. 11888 Floodplain Management Act	No floodplain impacts	Were floodplain issues evaluated?
Clean Air Act Compliance	No air quality impacts identified in EID	Does the project comply with the SIP?

Item Description	What, Where & How Met	Explanation of requirement (if needed)
Safe Drinking Water Act	N/A	Sole Source Aquifer review?
Civil Rights Act	Loan offer/contract requires borrower to comply with Civil Rights Act	Pre-award compliance review completed?
E.O. 11246	Loan offer/contract requires borrower to comply with Federal equal employment opportunity requirements.	Contract language re EEO?
MBE/WBE	The winning bidder, Ellsworth-Paulsen Construction Co., advertised for MBE/WBE and small business subcontractors. It also used telephone solicitation to request and obtain bids from MBE/WBE subcontractors. 2.42% of work awarded to WBE firms. 0.88% of work awarded to MBE firms.	Compliance by borrower/contractor
E.O. 12898 Environmental Justice	Not explicitly addressed	
Small Business & Rural Communities Act	The documentation submitted by the winning bidder for its MBE/WBE subcontracting efforts was intended to show compliance with small business requirements as well. However, that documentation did not explicitly identify an small business subcontractor solicitation effort.	
Uniform Relocation Act	N/A (no relocations)	

Item Description	What, Where & How Met	Explanation of requirement (if needed)
Debarment & Suspension	Checklist in file indicates the IDEQ project officer reviewed latest debarred and suspended contractors' list before approving contract award.	

## Pocatello Wastewater Treatment Facility Upgrade Photos

The Idaho Department of Environmental Quality provided us with some photographs of the Pocatello project. These photographs are displayed on the following several pages. Thanks to Bill Jerrel, Chuck Kettermann and Kasey Guthrie of IDEQ for these pictures!!













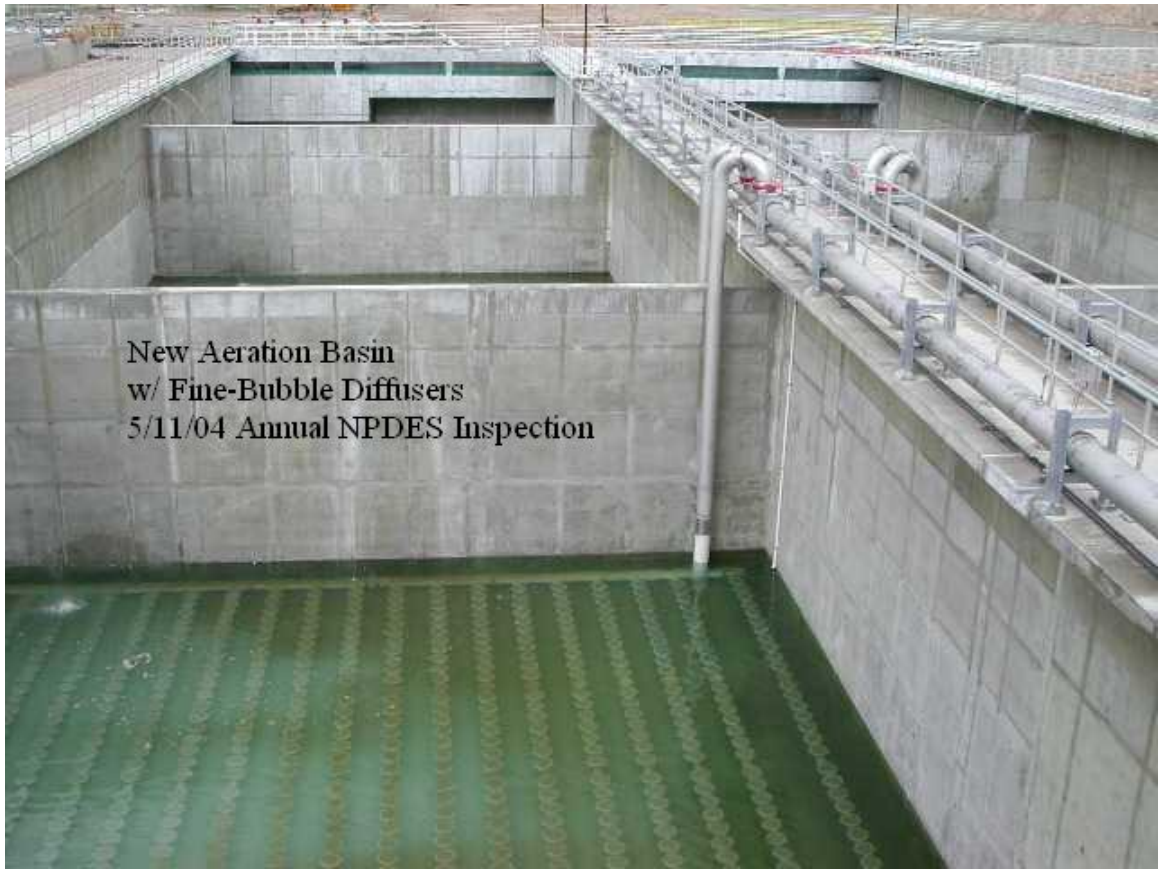
Rebuilt Secondary Clarifier  
5/11/04 Annual NPDES Inspection



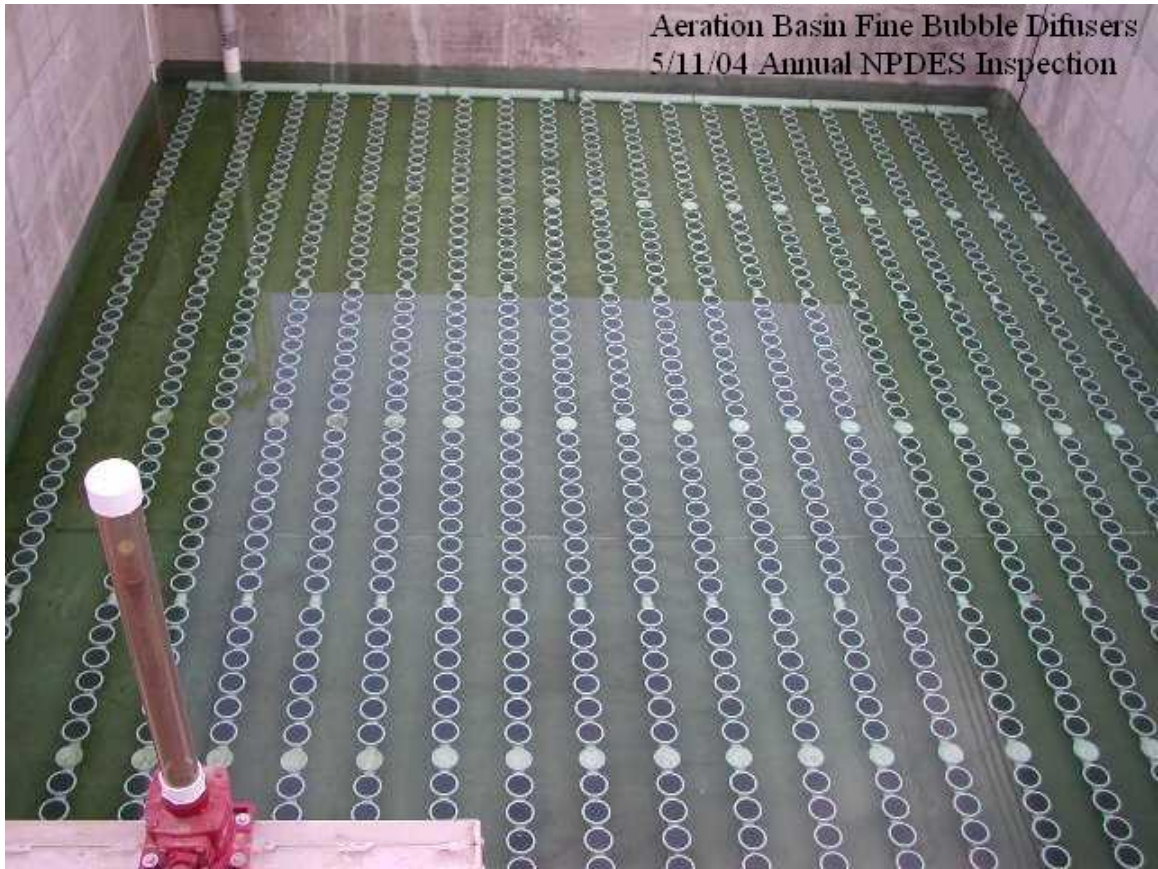


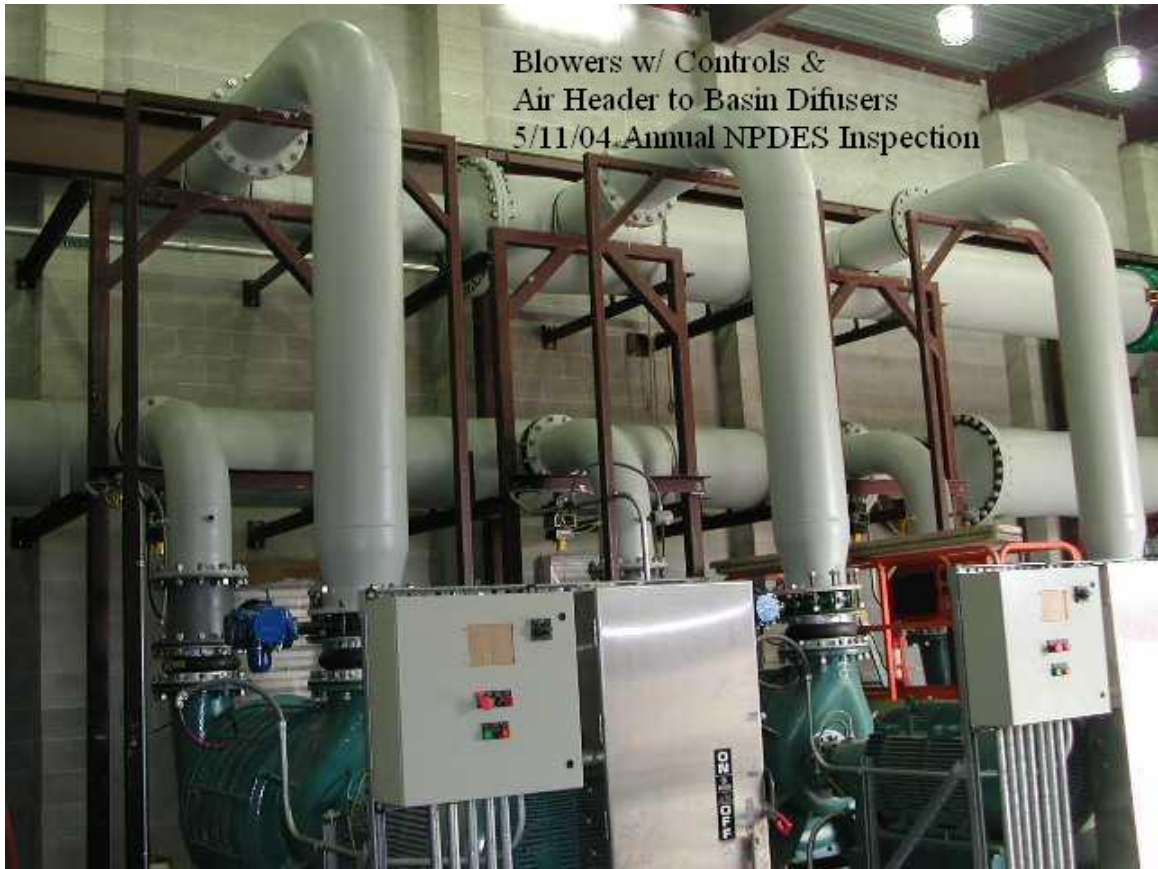
New Aeration Basin Overview  
5/11/04 Annual NPDES Inspection





New Aeration Basin  
w/ Fine-Bubble Diffusers  
5/11/04 Annual NPDES Inspection









New 300 Hp Blower  
in Blower Building  
5/11/04 Annual NPDES Inspection

New Blower Building  
5/11/04 Annual NPDES Inspection







New Effluent Parshall Flume  
5/11/04 Annual NPDES Inspection

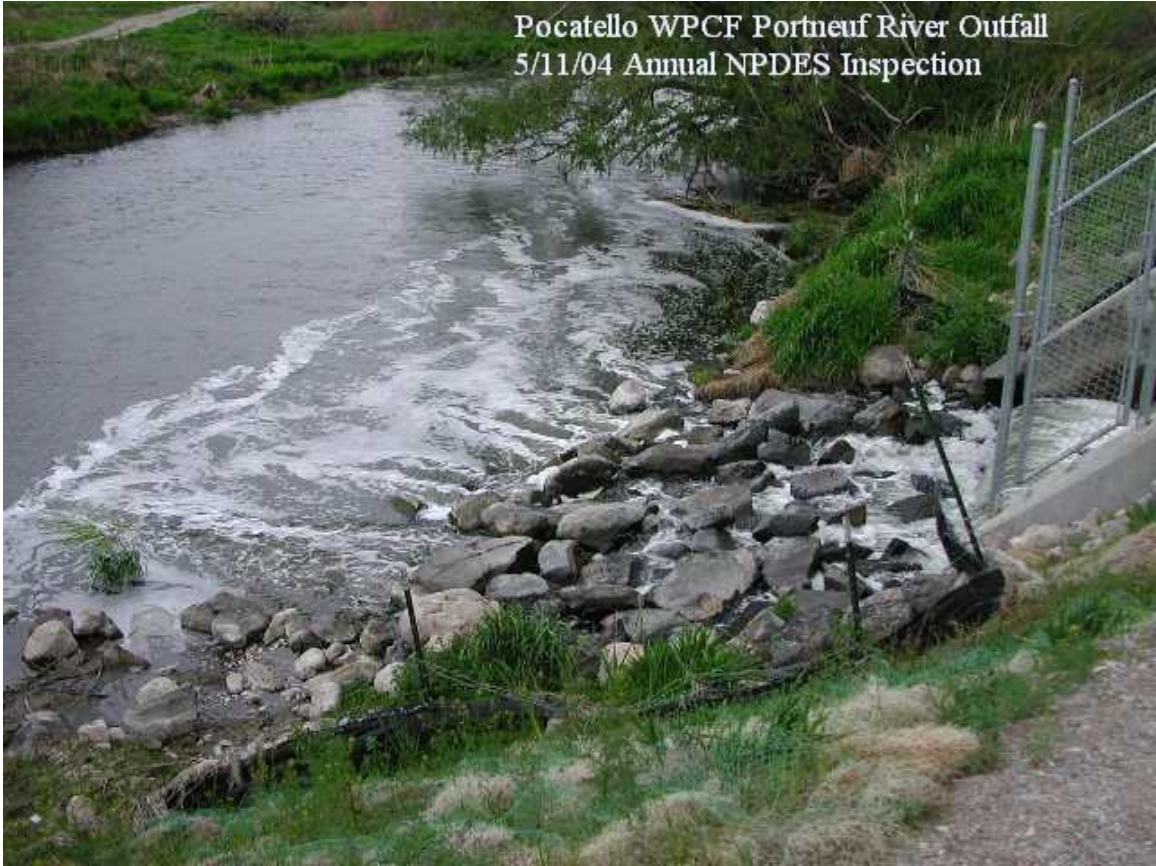


New Effluent Parshall Flume  
5/11/04 Annual NPDES Inspection



Portneuf River Revegetation - Upstream of Outfall  
5/11/04 Annual NPDES Inspection





## Required Program Elements

Review Item and Questions to Answer reference to guidance manual	Yes	No	N/A	Comments	Data Sources (check all that apply)	Source Reference
<b>1.1 Annual / Biennial Report</b>						
1 Does the State's Annual / Biennial Report meet all requirements?	X			The annual report responds directly to the guidance that EPA has provided. We may want to update that guidance so that the information provided by the state more directly addresses more of the "questions" articulated in the EPA annual review checklists.	Report Date ____October 30, 2002____November 14, 2003____	
a. Adequately reports on progress towards goals and objectives	X			The report discusses each of the goals and the state's progress during SFY 2002. The major change in SFY 2002 was the completion of an integrated planning and priority setting system for the Fund. This system was used in the development of the SFY 2003 Intended Use Plan		
b. Adequately reports on use of funds and binding commitments	X			The report lists all binding commitments and demonstrates compliance with the statutory minimum binding commitment rate.		
c. Reports on the timely and expeditious use of funds	X			The program committed approximately \$10.8 million out of \$43.3 million available for new loans in SFY 2002. The report did not explain why other loans on the IUP were not executed. In SFY 2003 the program executed approximately \$40,623,000 in new loans out of approximately \$57,266,000 available.		
d. Documents provision of assistance to projects for eligible purposes	X			All new loans were for Title II projects in SFY 2002. In SFY 2003 IDEQ made its first nonpoint source loan through the Idaho Soil Conservation Commission.		
e. Includes financial statements and cross-references independent audit report	X			Financial statements are included in the Annual Report. The Legislative Services Office published an independent audit on May 26, 2003 for SFY 2002. An independent audit for SFY 2003 was issued March 12, 2004.		
f. Provides overall assessment of the SRF's financial position and long-term financial health	X			The annual reports include well prepared sets of financial statements that is fully supported and consistent with the subsequently completed independent audits. There is no narrative discussion or evaluation of the Fund's financial position or long-term financial health. The audit for SFY 2003 does include a "Management Discussion and Analysis" as recommended by GASB 34.		
g. Demonstrates compliance with all SRF assurances	X	X		The Annual IUP included the standard suite of assurances. IDEQ continues to require POTW projects to meet the equivalency requirements. The Annual Report asserts compliance with all of the assurances and, in some cases, documents that compliance.		
h. Demonstrates compliance with SRF program grant conditions		X		The annual report guidance that we have given the states does not explicitly suggest that the report should address compliance with all grant conditions. IDEQ's report, like all others that we have received, addresses some but not all applicable grant conditions.		
i. Demonstrates that the highest priority projects listed in the IUP were funded (DW only)		X	X			

## Required Program Elements

Review Item and Questions to Answer <i>reference to guidance manual</i>	Yes	No	N/A	Comments	Data Sources (check all that apply)	Source Reference
j. Documents why priority projects were bypassed in accordance with state bypass procedures and whether state complied with bypass procedures.		X		Projects ranked 4, 7 and 25 from the SFY 2002 IUP were funded as well as a project ranked 7 on the SFY 2001 IUP (before the EPA capitalization grant was awarded for the SFY 2002 IUP). In SFY 2003 four of the five projects funded were in the top half of the priority list. The fifth project funded was in the bottom third of the priority list. No explanation of why the low ranking projects were funded is provided in the Annual Report.		
k. Documents use of set-aside funds (see set-aside sheet for details)			X			
2 Was the Annual / Biennial Report submitted on time?		X		The delay did not affect (delay) the conduct of EPA's performance review for either year.		
3 Does the SRF assess and document the environmental and public health benefits of projects that have previously initiated operations? If the answer is yes, the comment section should contain an explanation.		X		Such an assessment has not been done to date in Idaho.		

## Required Program Elements

Review Item and Questions to Answer <i>reference to guidance manual</i>	Yes	No	N/A	Comments	Data Sources (check all that apply)	Source Reference
<b>1.2 Funding Eligibility</b>						
1 Are projects receiving assistance eligible for funding?	X			All SFY 2002 projects are Title II projects and are on the state's project priority list. SFY 2003 included the first nonpoint source projects. These are eligible in that they implement aspects of the state's nonpoint source water quality plan.	X	
					Project Files	
					X Priority List	
					X Project ranking and selection process	
2 Is adequate documentation being received from assistance recipients to support the amount and eligibility of disbursement requests?	X			The SRF Financial Analyst tracked one payment request through the system for one project and found appropriate documentation.	X	
					Project Files - Pay Request Documentation	
					Approval documentation	
					Inspection reports	
3 Does the State have adequate controls over SRF disbursements to ensure that funds are used for eligible purposes?	X			IDEQ project engineers review invoices from project sponsors before payments are disbursed for incurred costs.		
4 Is the state meeting the 15% small system requirement? (DW only)			X			
5 Does the State have adequate procedures to ensure that systems in significant noncompliance with any NPDWR are not receiving assistance, except to achieve compliance? (DW only)			X			
<b>1.3 Compliance with State Law</b>						
1 Did the State provide assurances that grant payments have been accepted and expended in accordance with State laws and procedures?	X			IDEQ certifies such compliance and the independent audit by the Legislative Auditor made no findings; that is, the audit was "clean."	X	
					State Laws and Regulations	
					X Operating Agreement	
					X Annual / Biennial Report	
<b>1.4 Compliance with DBE Requirements</b>						
1 Is the State complying with all DBE requirements (setting goals, six affirmative steps and reporting)?		X		The state has agreed to goals for MBE/WBE and conveys these goals as well as guidance on the six affirmative steps in the loan contracts that it executes with borrowers. Our review of the quarterly reports submitted by the state indicate that they need to provide additional information in order for one to be able to determine how well the state and its loan customers are doing at meeting the goals..	X	
					Grant / Operating Agreement	
					Annual / Biennial Report	
					X Project Files	
					X DBE Reporting Forms	

## Required Program Elements

Review Item and Questions to Answer <i>reference to guidance manual</i>		Yes	No	N/A	Comments	Data Sources (check all that apply)	Source Reference
2	Are assistance recipients complying with all DBE requirements?	X			Loan file reviews indicate that borrowers are implementing the six affirmative steps with varying degrees of success in obtaining bids from WBE/DBE subcontractors.		



## Required Program Elements

Review Item and Questions to Answer <i>reference to guidance manual</i>	Yes	No	N/A	Comments	Data Sources (check all that apply)	Source Reference
<b>1.5 Compliance with Cross-Cutters</b>						
1 Is the State complying with applicable federal cross-cutting authorities?	X			The state commits to complying with and requiring assistance recipients to comply with the federal cross-cutting authorities in both the Operating Agreement and each IUP. The Annual Report reiterates this commitment. Loan agreements impose this duty on the borrowers and project file reviews do confirm compliance.	X	
					Project Files	
					X Grant / Operating Agreement	
					X Annual / Biennial Report	
2 Is the State ensuring that assistance recipients are complying with all applicable federal cross-cutting authorities?	X					
3 Have there been any instances where consultation was necessary?		X				
a. What did the consultation conclude with regard to compliance with the cross-cutter?			X			
<b>1.6 Compliance with Environmental Review Requirements</b>						
1 Are environmental reviews being conducted in accordance with the State's approved environmental review procedures (SERP)?	X				X	
					Project Files	
					X State Environmental Review Procedures	
					X Annual / Biennial Report	
2 Does the State adequately document the information, processes, and premises leading to decisions during the environmental review process?	X				X	
					Project Files	
					Filings with other State / federal authorities	
					Staff interviews	
a. Findings of No Significant Impacts (FNSIS) or the State equivalent.	X			IDEQ generally issues FNSIS and Categorical Exclusions. A full EIS has never been developed.		
b. Records of Decisions (RODS) or the State equivalent.	X					
c. Decisions to reaffirm previous SERP decisions.			X	We haven't seen one of these in our file reviews so far		
d. Decisions that projects meet requirements for a categorical exclusion (CE) or the State equivalent.	X					
3 Are public notices and meetings, as required by the SERP, provided during the environmental review process?	X			The project files documented public notice of public meetings and public hearings during the facilities planning process, which includes the environmental review process.		

## Required Program Elements

Review Item and Questions to Answer <i>reference to guidance manual</i>		Yes	No	N/A	Comments	Data Sources (check all that apply)	Source Reference
4	Are documented public concerns being adequately addressed/resolved by the State in the environmental review process?	X			Although we have only reviewed a limited number of projects, each of the facilities plans documented comments received from government agencies and the general public as well as the responses thereto. We have found no indication of public comments being ignored.		
5	Do environmental reviews adequately document the anticipated environmental and public health benefits of the project?			X	We haven't reviewed enough files to make an reach an informed judgment on this question.		

## Required Program Elements

Review Item and Questions to Answer <i>reference to guidance manual</i>	Yes	No	N/A	Comments	Data Sources (check all that apply)	Source Reference
<b>1.7 Operating Agreement</b>						
1 Is the State's Operating Agreement up to date reflecting current operating practices?	X			A revised operating agreement was developed in SFY 2003 and SFY 2004 and signed by both parties in mid-SFY 2004.		
a. Program administration	X					
b. MOUs	X					
c. Description of responsible parties	X					
d. Standard operating procedures	X					
<b>1.8 Staff Capacity</b>						
1 Does the State have adequate staff in terms of numbers and capability to effectively operate the SRF?	X			The Annual Reports discuss IDEQ's administration of the program. The Agency has staff in both the central office and the regional office that implement the program. It has been successful in recruiting additional staff when needed.	<input type="checkbox"/> Program Budget <input type="checkbox"/> Organization Chart <input checked="" type="checkbox"/> Staff interviews	
a. Accounting & Finance	X			The program shares a CPA with the DWSRF		
b. Engineering and field inspection	X			DEQ project engineers oversee and inspect projects under construction		
c. Environmental review / planning	X			Environmental reviews are directed by an experienced senior environmental specialist in the central office.		
d. Management	X			The program has an experienced and competent manager		
e. Management of set-asides (DW only)			X			
2 Does the program have an organizational structure to effectively operate the SRF?	X			The CWSRF resides organizationally within the water quality program in IDEQ and is "organizationally available" to the water quality program.		

## Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Comments	Data Sources (check all that apply)	Source Reference
<b>2.1 State Match</b>						
1 Has the State provided match equal to 20 percent of the grant amount? X	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input checked="" type="checkbox"/> Audited Financial Statements	
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input checked="" type="checkbox"/> Annual / Biennial Report	
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/> State Accounting Records Review	
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/> Other	
2 Was each match amount deposited at or before the federal cash draw? X	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input checked="" type="checkbox"/> Audited Financial Statements	
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input checked="" type="checkbox"/> Annual / Biennial Report	
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/> State Accounting Records Review	
3 What is the source of the match (e.g., appropriation, State GO bonding, revenue bonds, etc.)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	State water quality account financed by dedicated tax revenues. The funds are perpetually appropriated (no need for further legislative action).	<input checked="" type="checkbox"/> Grant Application	
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input checked="" type="checkbox"/> Audited Financial Statements	
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input checked="" type="checkbox"/> Annual / Biennial Report	
4 Are match funds held outside the SRF until the time of cash draws? X	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
5 If bonds are issued for state match, do the bond documents clearly state what funds are being used for debt service and security?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>			
a. Has the state match structure been approved by Headquarters?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>			
6 Is the state match bond activity consistent with the approved state match structure?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>			

## Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Comments	Data Sources (check all that apply)	Source Reference
<b>2.2 Binding Commitment Requirements</b>						
1 Are binding commitment requirements being met?	X				<input type="checkbox"/> Binding commitment worksheet <input checked="" type="checkbox"/> Annual / Biennial Report <input type="checkbox"/> Project files <input type="checkbox"/>	
a. Are cumulative binding commitments greater than or equal to cumulative grant payments and accompanying State match within one year of receipt of payment?	X					
b. Was the binding commitment requirement met at all times during the year? (discuss any exceptions)	X					
2 Are binding commitments documented in the project files?	X			The project file includes the signed loan agreement, which is the binding commitment.		
a. Do the commitment dates match reported commitments in the Annual/Biennial report?	X			For those projects for which we did file reviews the commitment dates (loan execution dates) are consistent with the dates shown in the annual report's listing of executed loans.		
3 Is there a significant lag between binding commitments, loan execution, or the actual start of the projects?		X		The EPA has not observed any significant lags between loan execution and actual start of construction. These observations are, of course, limited to the project files we have reviewed.	<input checked="" type="checkbox"/> Project Files <input type="checkbox"/> Record of binding commitment dates <input type="checkbox"/> Loan documents <input type="checkbox"/>	
a. What is the typical and longest lag from binding commitment to project start?				We have not made any attempt to calculate this time period.		
b. How many projects have never started?				None that we know of.		
c. How many projects have been replaced because they never started?				None that we know of.		
d. If this problem exists, is it recurring? If so, what steps are the State taking to correct the situation?			X			

## Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Comments	Data Sources (check all that apply)	Source Reference
<b>2.3 Cash Draws</b>						
1 Has the State correctly adhered to the "Rules of Cash Draw" ?	X				<input checked="" type="checkbox"/> Project disbursement requests <input checked="" type="checkbox"/> Accounting transactions <input type="checkbox"/> Approved leveraging structure <input checked="" type="checkbox"/> Federal draw records (IFMS) <input checked="" type="checkbox"/> Audits	
2 Does a review of specific cash draw transactions confirm use of correct proportionality percentages?	X					
3 For leveraged states, what proportionality ratio is the state using to draw federal funds?			X			
4 Have any erroneous payments/cash draws/disbursements been discovered and, if so , what corrective steps are being taken?		X				
5 Does a review of specific Project cash draw transactions confirm the use of federal funds for eligible purposes?				EPA did not review cash draws to determine whether cash was being disbursed for costs that are allowable under the Idaho program regulations. The independent audit did not suggest any concerns with project cash draws.		
6 Does a review of specific Administrative cash draw transactions confirm the use of federal funds for eligible purposes?			X	EPA did not review administrative cash draws. The independent audit did not suggest any concerns with administrative cash draws.		
<b>2.4 Timely and Expeditious Use of Funds</b>						
1 Is the State using SRF funds in a timely and expeditious manner?	X			This has been an issue in Idaho over the last few years. The state has taken and is taking positive steps to increase the dollar volume of binding commitments.	<input checked="" type="checkbox"/> IUP <input checked="" type="checkbox"/> Binding commitments <input checked="" type="checkbox"/> Annual / Biennial Report	
a. Does the fund have large uncommitted balances?	X			The fund had an uncommitted cash balance of approximately \$29.7 million at the end of SFY 2003. The corresponding figure for SFY 2002 was \$41.1 million. The state, thus, seems to be committing and disbursing funds at a higher rate.		
b. Does the fund have large balances of undrawn federal and state funds?		X				
c. Are the uncommitted balances growing at a faster annual percentage rate than the growth of the total assets of the SRF?		X				
2 Is the State's use of funds consistent with the IUP?	X					
3 Does the State need to improve its use of funds to ensure timely and expeditious use? If so, what steps is the State taking?	X			Neither the SFY 2004 Final IUP nor the SFY 2005 Final IUP contained nonpoint source loans. The state needs to explore ways to improve marketing to nonpoint source customers.		
4 Based on the states' plan for timely and expeditious use of funds, is progress being made on meeting this plan?	X			The state has added nonpoint source projects as eligible projects and has incorporated an application solicitation process into its IUP development process.		

## Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Comments	Data Sources (check all that apply)	Source Reference
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## Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Comments	Data Sources (check all that apply)	Source Reference
<b>2.5 Compliance with Audit Requirements</b>						
1 Are independent audits being conducted annually?	X			Audits are conducted by the Legislative Audit Division of the Legislative Services Office	X Most Recent Financial Audit Report X Prior Year Financial Audit Reports	
2 Are annual audits being conducted by an independent auditor?	X			We looked at independent audits for both SFY 2002 and SFY 2003.		
a. Who conducted the most recent audit?				Legislative Audit Division of the Legislative Services Office		
b. Did the program receive an unqualified opinion?	X					
c. Were there any significant findings? (Briefly discuss the findings.)						
d. Is the program in compliance with GAAP?	X					
e. Does the State ensure that assistance recipients are adhering to GAAP accounting requirements?	X			Loan agreements require accounting in accordance with GAAP.		
3 Has the program implemented audit recommendations and/or recommendations in the "management" letter?			X			
4 Does the prior annual audit confirm compliance with State laws and procedures?	X					
a. What did the audit conclude with regard to internal control structure?				The audits noted no matters involving internal controls that the auditors would consider to be a material weakness. The audits qualified this finding by noting that the review would not necessarily disclose all material weaknesses in internal controls. This is a standard qualification.		
b. Did the audit identify any erroneous payments/cash draws/disbursements?			X	The audits did not explicitly look for erroneous payments, cash draws or disbursements.		
c. Has the State taken action to recover the improperly paid funds?			X			



## Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Comments	Data Sources (check all that apply)	Source Reference
5 Are the states cash management and investment practices consistent with State Law and any applicable bond requirements.	X			Cash management is controlled by the State Treasurer	X	
					Audit	
					NIMS Data	
a. Are SRF earnings properly credited to the SRF?	X			Each audit states that earnings must be credited to the Fund. It does not seem to attempt to verify that all earnings are, indeed, being credited to the Fund.		
b. Is the SRF earning a reasonable rate of return on invested funds?	X			Idaho's yields have been consistently equal to or higher than the national average as reported in the SRF FPM.		
6 Are states accounting procedures adequate for managing the SRF?	X			Our reviews of both the financial statements and the independent audits by the Legislative Services Office lead us to conclude that the accounting procedures are adequate.		
					Accounting procedures manual	
					Internal controls documentation	
7 Are loan recipients providing single audits?	X			Yes, this is a requirement under Idaho state law.		
					Project files	
a. Is the State reviewing the loan recipient audits and resolving issues?		X		Audits are available for review, however, we are not aware of a regular process by IDEQ to review every recipient's audited financial statements every year.		

## Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Comments	Data Sources (check all that apply)	Source Reference
<b>2.6 Assistance Terms</b>						
1 Are the terms of assistance consistent with program requirements?	X				X IUP	
					X Loan Agreements	
					Repayment transactions	
a. Are interest rates charged between 0% and market rates? (except as allowed for principal forgiveness)	X			Interest rates have always been below market rates but somewhat higher than other states have been charging. Idaho recently started reducing interest rates to reflect reductions in market rates.		
b. Do principal repayments start within one year of project completion and end within 20 years, for all non-extended term projects with non-extended loan repayment terms?	X				Loan agreement language	
c. Does the program use extended terms or principal forgiveness to the extent it is allowable? (If so report the percentage of project funding in these categories.)			X			
2 Does the State periodically evaluate the terms of assistance offered relative to the supply and demand for funds and the long-term financial health of the fund?	X			The state annually reviews the interest rate being charged on new loans and adjusts it to reflect market conditions.		
<b>2.7 Use of Fees</b>						
1 Does the program assess fees on their borrowers?		X		The state legislature adopted legislation authorizing the collection of loan fees for both of the state's revolving funds in the calendar year 2004 session. IDEQ plans to develop regulations governing the administration of loan fees in SFY 2005.	X IUP	
					Loan Agreements	
					Repayment transactions	
					X Annual Reports	
a. What is the fee rate charged and on what basis (e.g., percentage of closing amount, principal outstanding, principal repaid, etc.)?						
b. Are fees being used in accordance with program requirements?			X			
2 Does the State periodically evaluate the use of fees relative to loan terms to set appropriate total charges to borrowers and assess long-term funding needs to operate the program?			X			
3 Does the State have adequate procedures for accounting and reporting on its use of fees?			X			

## Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Comments	Data Sources (check all that apply)	Source Reference
<b>2.8 Assessment of Financial Capability and Loan Security</b>						
1 Does the State have adequate procedures for assessing the financial capability of assistance recipients? (CW only)		X		The state does not do a formal creditworthiness evaluation. This is a serious omission that must be corrected.	<input type="checkbox"/> Financial Capability Review Procedures <input checked="" type="checkbox"/> Loan applications <input checked="" type="checkbox"/> Project Files	   
2 Are the financial capability policies and procedures being followed? (CW only)			X	There are no written policies and procedures, yet.	<input type="checkbox"/> Financial Capability Review Procedures <input checked="" type="checkbox"/> Loan approval documentation <input checked="" type="checkbox"/> Project Files	   
3 Does the state have adequate procedures for assessing the technical, financial, and managerial capability of assistance recipients? (DW only)			X		<input type="checkbox"/> Capability Review Procedures <input type="checkbox"/> Loan applications <input type="checkbox"/> Project Files	   
4 Are the technical, financial, and managerial review procedures being followed? (DW only)			X		<input type="checkbox"/> Capability Review Procedures <input type="checkbox"/> Loan approval documentation <input type="checkbox"/> Project Files	   
5 Do assistance recipients have a dedicated source of revenue for repayment or, for privately-owned systems, adequate security to assure repayment?	X			Loan documents reviewed as a part of our file reviews indicate that assistance recipients are pledging net wastewater utility revenues. They are also agreeing to establish debt service reserves and to maintain coverage ratios between net operating revenues and annual debt service requirements.	<input checked="" type="checkbox"/>	   
					<input type="checkbox"/> Financial Capability Review Procedures <input checked="" type="checkbox"/> Loan approval documentation <input checked="" type="checkbox"/> Project Files	   

## Required Financial Elements

Review Item and Questions to Answer	Yes	No	N/A	Comments	Data Sources (check all that apply)	Source Reference
<b>2.9 Financial Management</b>						
1 Is the SRF program's financial management adequate to achieve both short- and long -term financial goals?	X				X Annual / Biennial Report Staff interviews	
a. Do the Financial Indicators indicate that the program is well managed financially?	X					
2 Does the SRF have adequate resources to meet its financial obligations?	X			The state seems to be continuing to meet all economic demand for water quality financial assistance that the fund is receiving. Nonpoint source demand has not yet really materialized and we can't assess whether the money available in the Fund will be adequate to meet that demand if it develops in the future.		
3 Does the State have a long-term financial plan to direct the program?		X		The state has not done any long term financial planning, yet.		
a. Is the plan periodically reviewed and updated?			X			
b. Does planning address types of assistance and terms, use of leveraging, and transfers or cross-collateralization between programs?			X			
4 Are funds disbursed to assistance recipients in a timely manner?	X					
5 What is the states' experience in dealing with loan restructuring, the potential for defaults and the timeliness of loan repayments?		X		Payments are routinely on time and no loans have been restructured in the program's entire history.		
6 Are net bond proceeds, interest earnings, and repayments being deposited into the fund?			X			
7 If the State leverages, is its leveraging activity consistent with the accepted leveraging structure?			X			
8 Are leverage and state match bond documents consistent with SRF regulations?			X			